

TO THE SHAREHOLDERS

The financial statements in this report are prepared on the accounting basis recommended by the Institute of Chartered Accountants. In the general insurance industry, with a very high percentage of its assets made up of marketable securities, this accounting change provides a consistent basis of presentation and one properly comparable with that of other financial institutions. Thus a more realistic disclosure of assets and return on investment is set forth. The figures for the prior year 1974 have been restated in keeping with this more representative presentation.

The rights issue referred to last year was offered and subscribed to in July. This resulted in a shareholders' commitment to an additional investment of \$1,495,956. Final instalments of \$300,002 are due in 1976. Of the 53,488 shares offered, only 61 were not taken up.

There has been some easing of the prior year's adverse experience in the general insurance industry in Canada. However, the unprecedented losses experienced in other countries during 1975 indicates the need for a cautionary attitude. Our Company's planned results for 1975 were not realized. Continuing inflation has forced us to increase our claims provisions of prior years, and these increases are reflected in the underwriting loss for the year. The increase in operating expenses over the previous year was held to a modest 2%. Large court awards, sharp increases in automobile crash repairs, and general inflation of all claims costs have imposed a penalty on the Company.

The efforts of a dedicated staff and the loyalty of our agency force are strengths which have been of great assistance to Management during this difficult period.

The year ahead is entered upon with a determination to accomplish the purposes of your directors — a profitable and encouraging year for both agents and staff, and a reasonable return for the shareholders' investment.

G.A. Savage
President

AUDITORS' REPORT

To the Shareholders of
The Guarantee Company of North America

We have examined the balance sheet of The Guarantee Company of North America as at December 31, 1975 and the statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting for investments and deferred income taxes as described in note 1, on a basis consistent with that of the preceding year.

DIRECTORS

G. A. SAVAGE
President

PIERRE COTE
President — Laiterie Laval Limitée

FRANK COWAN
President — Frank Cowan Company Limited

ROBERT H. COWAN
Account Executive — Frank Cowan Company Limited

BRUNO DESJARDINS, Q.C.
Partner — Simard & Desjardins

DANIEL O'C. DOHENY, Q.C.
Partner — Doheny, Mackenzie, Grivakes, Gervais &
Le Moyne

J. H. KENNEDY
Vice-President & General Manager — Frank Cowan Company
Limited

W. J. MILHAUSEN,
Partner — Marani, Rounthwaite and Dick

G. W. MILLAR
Chairman of the Board — Beclawat Ltée/Ltd.

LYLE E. WELLS,
Executive Vice-President — Frank Cowan Company Limited

OFFICERS

GEORGE A. SAVAGE President & Chief Executive Officer

FRANK COWAN Executive Vice-President

BRUNO DESJARDINS, Q.C. Executive Vice-President

DOUGLAS M. CHADWICK Treasurer

DOUGLAS R. SMITH Secretary

ARAM SEMERJIAN Vice-President and Asst. Manager

MILDRED JONES Vice-President

J. ANDRE LAPIERRE Vice-President

BERNARD SOUCHEREAU Vice-President



THE GUARANTEE COMPANY OF NORTH AMERICA

1975

ANNUAL REPORT

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FIDELITY AND SURETY BONDS PROPERTY AND AUTOMOBILE INSURANCE

THE COMPANY THAT INTRODUCED FIDELITY INSURANCE TO NORTH AMERICA

INCORPORATED STATUTES OF CANADA 1851 • FEDERALLY LICENSED 1872

BALANCE SHEET AS AT DECEMBER 31, 1975

(with comparative figures for the preceding year)

	1975	1974 (restated)
ASSETS		
Cash and short term investments	\$ 855,112	\$ 467,701
Accounts receivable		
Accrued investment income	310,366	228,028
Agents	3,170,282	2,403,325
Other insurers	693,422	1,566,159
Other	328,490	805,133
Income taxes recoverable	—	182,389
Prepaid expenses	44,754	31,676
	<u>4,547,314</u>	<u>5,216,710</u>
Long-term investments (notes 1 and 2)		
Bonds and debentures	11,577,011	7,978,024
Shares	10,984,571	10,036,343
Mortgages	133,214	171,432
Real estate	214,951	218,985
	<u>22,909,747</u>	<u>18,404,784</u>
Fixed Assets		
Office furniture and equipment — at cost	282,092	266,301
Accumulated depreciation	188,341	164,904
	<u>93,751</u>	<u>101,397</u>
Leasehold improvements at amortized cost	24,628	18,728
	<u>118,379</u>	<u>120,125</u>
Deferred premium acquisition costs (note 3)	2,017,164	1,321,672
	<u>\$30,447,716</u>	<u>\$25,530,992</u>
LIABILITIES		
Accounts payable		
Other insurers	\$ 318,825	\$ 263,231
Premium taxes	73,236	63,823
Income taxes (note 4)	82,232	—
Other	303,061	212,575
	<u>777,354</u>	<u>539,629</u>
Unpaid claims	10,826,989	7,607,840
Unearned premiums	10,085,820	6,608,361
Reinsurers' deposits	—	3,179,488
	<u>21,690,163</u>	<u>17,935,318</u>
Deferred income taxes (note 4)	554,000	962,000
SHAREHOLDERS' EQUITY		
Capital Stock (note 5)		
Authorized 200,000 shares at \$5		
Issued: Fully paid	151,527 (1974 - 133,720)	
Not fully paid	35,620	
Outstanding	<u>187,147</u>	<u>668,600</u>
	<u>882,163</u>	<u>668,600</u>
Contributed surplus (note 5)	982,391	—
Retained earnings (notes 1 and 6)	6,338,999	5,965,074
	<u>8,203,553</u>	<u>6,633,674</u>
	<u>\$30,447,716</u>	<u>\$25,530,992</u>

APPROVED BY THE BOARD:

Director

Director

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1975

(with comparative figures for the preceding year)

	1975	1974 (restated)
GROSS PREMIUMS WRITTEN	\$21,512,567	\$18,629,293
NET PREMIUMS WRITTEN	\$15,278,581	\$15,503,099
REVENUE		
Premium earned	\$15,257,481	\$15,200,007
Investment income		
Bonds and debentures interest and amortization (note 2)	577,480	711,348
Dividends	732,748	514,441
Losses on shares (note 2)	(250,424)	(406,870)
Mortgage income	12,966	11,775
Rental income	36,666	42,911
Other	9,447	8,770
	<u>1,118,883</u>	<u>882,375</u>
TOTAL REVENUE	<u>16,376,364</u>	<u>16,082,382</u>
EXPENSES		
Claims incurred	10,620,748	11,427,383
Commissions	3,715,204	3,185,499
Premium taxes	383,905	312,239
Other underwriting and administrative	1,026,916	1,488,244
Investments	68,901	69,497
Quota share expenses (revenue)	505,795	(505,795)
	<u>16,321,469</u>	<u>15,977,067</u>
INCOME before income taxes	<u>54,895</u>	<u>105,315</u>
Income taxes		
Current (recovery)	88,970	(89,220)
Deferred (notes 1 and 4)	(408,000)	35,000
	<u>(319,030)</u>	<u>(54,220)</u>
NET INCOME (note 1)	<u>\$ 373,925</u>	<u>\$ 159,535</u>
Net income per share	<u>\$2.54</u>	<u>\$1.19</u>

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1975

(with comparative figures for the preceding year)

	1975	1974
UNAPPROPRIATED RETAINED EARNINGS		
January 1st, as previously stated	\$3,029,782	\$4,648,539
Adjustments due to changes in accounting policies (note 1)		
Unrealized loss on marketable securities	3,901,957	1,814,616
Deferred income taxes	(962,000)	(927,000)
Investment valuation	(618,057)	(264,594)
As restated	5,351,682	5,271,561
Net income	373,925	159,535
	<u>5,725,607</u>	<u>5,431,096</u>
Transfer to guarantee bond reserve	52,255	79,414
December 31st	<u>5,673,352</u>	<u>5,351,682</u>
APPROPRIATED RETAINED EARNINGS		
January 1st	613,392	533,978
Transfer from unappropriated retained earnings to guarantee bond reserve	52,255	79,414
December 31st	<u>665,647</u>	<u>613,392</u>
TOTAL RETAINED EARNINGS	<u>\$6,338,999</u>	<u>\$5,965,074</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 1975

1. CHANGES IN ACCOUNTING POLICIES

Investments

The company has changed its method of accounting for long-term investments in bonds, debentures and shares, previously stated at market values, to the method outlined in note 2. The effect of this change has been to decrease by \$136,312 the reported net income of the current year. The 1974 operating results have been restated to reflect this change which decreases the net income by \$353,463, and increases the accumulated retained earnings of January 1, 1975 by \$3,283,900.

Income taxes

The company has adopted the deferred income tax allocation method of accounting. This change increases the reported income of the current year by \$408,000. The operating results of 1974, restated, decrease the previously reported net income by \$35,000 and the accumulated retained earnings of January 1, 1975 by \$962,000.

2. LONG-TERM INVESTMENTS

The values stated for long-term investments are as follows:

- Bonds and debentures, having a cost value of \$11,406,386 (1974 - \$7,856,280) and quoted market value of \$10,175,691 (1974 - \$6,509,882), have been accounted for on the "deferral and amortization" method. Under this method, realized gains and losses on disposals are deferred and amortized over the period to maturity of the security sold. The unamortized portion of the realized gain or loss is included in the amortized value of bonds and debentures.
- Shares, having a cost of \$11,909,565 (1974 - \$10,776,143) and a quoted market value of \$9,789,206 (1974 - \$8,220,645) have been accounted for on the "fair value" method. This method allows for a gradual movement towards current quoted market values, whereby the shares are valued on a five-year moving average of market values.
- Mortgages are accounted for on the same basis as bonds and debentures held as long-term investments.
- Real estate is stated at cost of \$266,864 (1974 - \$266,864), less accumulated depreciation of \$51,913 (1974 - \$47,879). This real estate is included under the caption of investments since its main purpose is one of investment. Depreciation on building has been calculated on the declining balance basis at a rate of 5 per cent.

Income from long-term investments has been accounted for as follows:

- Bond and debentures interest and amortization includes interest earned and amortization of discounts or premiums arising from purchases other than at par values and amortization of realized gains and losses on security disposals as described above.
- Losses on shares includes changes in fair values, as described above, and amounts received on disposal that are in excess of or less than fair values at the end of the preceding period.
- Rentals include an amount of \$13,656 (1974 - \$13,656) representing an occupancy charge in respect of space used by the company.

3. DEFERRED PREMIUM ACQUISITION COSTS

These represent agents' commissions, premium taxes and certain other underwriting expenses which relate directly to acquisition of premiums. These costs, to the extent that they are considered to be recoverable, are deferred and amortized over the term of the related premiums.

4. INCOME TAXES

As referred to in note 1, the company has adopted the deferred income tax allocation method of accounting. The deferred income taxes account comprises the following:

Deferred income tax credits arising from claiming for tax purposes acquisition costs on unearned premium	\$1,009,000
Deferred income tax charge arising from 1975 tax loss carry-forward	(428,000)
Deferred income tax charge arising from depreciation claimed in excess of capital cost allowances	(27,000)
	<u>\$ 554,000</u>

In addition the company has unrealized losses on long-term investments of \$754,369 the tax effect on which has not been recorded in the accounts.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS

During the year the company received subscriptions for 53,427 shares at the subscription price of \$28, of which \$5 is capital and \$23 is credited to contributed surplus.

6. APPROPRIATED RETAINED EARNINGS

Appropriated retained earnings at the end of the current and preceding year consisted of a special reserve in connection with fidelity and surety guarantee bonds outstanding.